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091341Z Jan 02

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ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	INL-00	DODE-00	ITCE-00	DOIE-00	SRPP-00	EB-00	EXME-00
	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00
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FM AMEMBASSY HARARE  
TO SECSTATE WASHDC 0675  
INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

UNCLAS SECTION 01 OF 06 HARARE 000081

SIPDIS

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TAGS: [ETRD](#) [ECON](#) [EFIN](#) [ZI](#)  
SUBJECT: ZIMBABWE 2002 NATIONAL TRADE ESTIMATE REPORT  
SUBMISSION

REFS: A) STATE (01) 201265, B) STATE (01) 213042,C)

STATE 02034

11. BELOW FIND OUR SUBMISSION OF THE 2002 ZIMBABWE  
CHAPTER FOR THE NATIONAL TRADE ESTIMATE REPORT. PER  
REF A INSTRUCTIONS WE HAVE MADE NO CHANGES TO THE  
TRADE DATA IN THE FIRST PARAGRAPH, LEAVING THE UPDATE  
TO USTR.

12. BEGIN TEXT OF ZIMBABWE NTE 2002 CHAPTER.

TRADE SUMMARY

IN 2000, THE U.S. TRADE DEFICIT WITH ZIMBABWE DECLINED  
TO \$59 MILLION, A DECREASE OF \$14 MILLION FROM THE  
1999 DEFICIT. U.S. MERCHANDISE EXPORTS TO ZIMBABWE IN  
2000 TOTALED \$53 MILLION, A DECREASE OF \$7 MILLION  
FROM 1999. ZIMBABWE WAS THE UNITED STATES' 134TH  
LARGEST EXPORT MARKET IN 2000. U.S. MERCHANDISE  
IMPORTS FROM ZIMBABWE WERE \$112 MILLION, DOWN \$20  
MILLION FROM 1999.

THE STOCK OF U.S. FOREIGN DIRECT INVESTMENT IN  
ZIMBABWE WAS APPROXIMATELY \$128 MILLION IN 2001, A  
FIGURE UNCHANGED FROM THE PREVIOUS YEAR. HOWEVER WE  
POINT OUT THAT ZIMBABWE'S RECENT, SERIOUS ECONOMIC  
PROBLEMS WOULD LIKELY MAKE THE MARKET VALUE MUCH  
LOWER, AND HARD CURRENCY SHORTAGES AND THE EXISTENCE  
OF BOTH OFFICIAL AND PARALLEL FOREIGN EXCHANGE MARKETS  
COULD CAUSE DIFFICULTY AND POSSIBLE FURTHER  
DEVALUATION OF ANY REPATRIATED INVESTMENT VALUES.

IMPORT POLICIES

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ZIMBABWE'S ECONOMY, INCLUDING ITS TARIFF REGIME, BEGAN  
A TRANSITION IN 1991 FROM A HIGHLY CONTROLLED,  
MARXIST-MODELED, STATIST SYSTEM TO A MORE OPEN,  
MARKET-BASED ECONOMIC SYSTEM. DURING THE FIRST PHASE  
OF ITS STRUCTURAL ADJUSTMENT PROGRAM, WHICH ENDED IN  
1995, ZIMBABWE ABOLISHED QUANTITATIVE RESTRICTIONS IN  
FAVOR OF A TARIFF-BASED TRADING SYSTEM. IN EARLY 1996,  
ZIMBABWE UNDERTOOK A COMPREHENSIVE REVIEW AND  
RATIONALIZATION OF ITS TARIFF POLICIES AND RATES WITH  
SUBSTANTIAL WORLD BANK INPUT AND THE COOPERATION OF  
THE CONFEDERATION OF ZIMBABWE INDUSTRIES (CZI). A NEW  
TARIFF REGIME, EFFECTIVE MARCH 1, 1997, LOWERED DUTIES  
ON RAW MATERIALS AND OTHER INPUTS IN AN EFFORT TO  
REMOVE MOST CASES OF THE PREVIOUS ANOMALY WHERE THERE  
WERE HIGHER DUTIES ON RAW MATERIALS THAN ON FINISHED  
PRODUCTS. RAW MATERIALS NOW INCUR A DUTY RATE OF FIVE  
TO 15 PERCENT, THOUGH ADDITIONAL IMPORT SURCHARGES ARE  
VERY LIKELY TO BE APPLIED.

PROBABLY THE MOST SIGNIFICANT CURRENT BARRIER TO NEW  
OR ONGOING TRADE OR IMPORTS TO ZIMBABWE IS THE VERY  
POOR BALANCE OF PAYMENTS SITUATION, AND THE RESULTANT

SEVERE HARD CURRENCY SHORTAGE. THE CAUSES ARE MYRIAD:  
DECLINING GDP (IN REAL TERMS); HIGH INFLATION (THAT  
HAS RECENTLY EXCEEDED 100 PERCENT); AN OVERVALUED  
PEGGED CURRENCY; AN UNSUSTAINABLY HIGH GOVERNMENT  
BUDGET DEFICIT (ESTIMATED TO BE ABOUT 25 PERCENT OF  
GDP FOR 2000, AND 15 PERCENT FOR 2001); OVERALL POOR  
EXPORT AND DOMESTIC INVESTMENT PERFORMANCE THAT IS  
EXPECTED TO WORSEN; THREATS TO THE COUNTRY'S CORE  
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COMMERCIAL FARMING SECTOR; CONTINUED AND SPREADING  
CORRUPTION; AND CONTINUED FUEL AND OTHER KEY INPUT  
SHORTAGES (CAUSED BY THE LACK OF FOREIGN CURRENCY).  
ECONOMIC CONDITIONS ARE EXPECTED TO DETERIORATE  
FURTHER BEFORE THEY IMPROVE, AND A TURNAROUND WOULD  
LIKELY NEED TO BE PROCEEDED BY A RESUMPTION OF  
POSITIVE WORKING RELATIONS WITH THE INTERNATIONAL  
DONOR AND MULTILATERAL LENDING COMMUNITY.  
TARIFFS AND DUTIES

IN RESPONSE TO THE SIGNIFICANT DETERIORATION OF  
ZIMBABWE'S ECONOMY AND AS A PRECURSOR TO THE  
IMPOSITION OF A VALUE-ADDED-TAX (VAT) REGIME, WHICH  
HAS BEEN DELAYED FOR THE PAST 18 MONTHS AND THE TIMING  
OF WHICH IS STILL UNCERTAIN, THE GOVERNMENT OF  
ZIMBABWE HAS BEEN WORKING ON FINALIZING A NEW TARIFF  
AND IMPORT DUTY SCHEDULE. IN ADDITION, IN MID-2001, A  
NEW REVENUE AUTHORITY OF ZIMBABWE WAS CREATED THAT  
FO  
LDED TOGETHER THE REVENUE-COLLECTING SECTIONS OF THE  
CUSTOMS BUREAU AND THE TAX BUREAU. THE NEW AUTHORITY  
DID NOT BRING ON BOARD ALL THE OLD PERSONNEL, AND THE  
PRESENCE OF NEW AND INEXPERIENCED STAFF HAS RESULTED  
IN NEW PROBLEMS FOR IMPORTERS, THOUGH THESE SHOULD BE  
REDUCED WITH TIME.

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	INR-00	ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00
	NSCE-00	OES-01	OMB-01	OPIC-01	PC-01	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	FMP-00
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TO SECSTATE WASHDC 0676  
INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

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SUBJECT: ZIMBABWE 2002 NATIONAL TRADE ESTIMATE REPORT  
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DUE TO THE SLIDE OF THE ZIMBABWE DOLLAR AGAINST  
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FOREIGN CURRENCIES WHICH BEGAN IN AUGUST 1998, THE  
GOVERNMENT INCREASED IMPORT TARIFFS ACROSS THE BOARD  
IN SEPTEMBER 1998 FROM 20 TO 100 PERCENT. IN MID-2001  
SOME OF THESE WERE ROLLED BACK, PRIMARILY AT THE  
URGING OF INDUSTRY, THOUGH THE EXISTENCE OF DIFFERENT  
AND SOMETIMES CONFLICTING TARIFF SCHEDULES CAUSES  
DISAGREEMENT. GENERALLY THE HIGHER DUTIES ARE APPLIED  
TO LUXURY ITEMS AND GOODS FOR WHICH DOMESTICALLY  
PRODUCED SUBSTITUTES EXIST. THE LIST OF TARGETED GOODS  
STILL INCLUDES FURNITURE, BICYCLES, MOTOR VEHICLES,  
ELECTRICAL AND ELECTRONIC GOODS, SHOES, CARPETS AND  
BUILDING MATERIALS.

AT PRESENT, TARIFFS AND DUTIES AS PRESENTED IN THE  
CUSTOMS AND EXCISE AMENDMENT NOTICE NUMBER 12 OF 1998  
ARE STILL IN EFFECT, THOUGH SOME AMENDMENTS HAVE BEEN  
MADE AND FURTHER CHANGES HAVE BEEN PROMISED.  
REPRESENTATIVE EXAMPLES INCLUDE:

DUTY ON EDIBLE VEGETABLES INCREASED FROM 40  
TO 60 PERCENT TO 60 TO 80 PERCENT;

DUTY ON CEREAL FLOURS INCREASED FROM 30 TO 60 PERCENT;

DUTY ON PREPARED CEREALS INCREASED FROM 40 TO 80 PERCENT;

DUTIES ON FRUIT JUICES AND AERATED WATER 85 AND 82.5 PERCENT RESPECTIVELY, WITH A Z\$LO/LITER (ABOUT 18 U.S. CENTS AT CURRENT EXCHANGE RATES) AND 22.5 PERCENT EXCISE DUTY RESPECTIVELY;

DUTY ON IMPORTED WINES 95 PERCENT DUTY AND Z\$2.50/LITER (ABOUT 4 U.S. CENTS AT CURRENT UNCLASSIFIED

PAGE 03 HARARE 00081 02 OF 06 091619Z EXCHANGE RATES) EXCISE TAX;

DUTY ON CIGARETTES 100 PERCENT DUTY AND 80 PERCENT EXCISE TAX;

DUTY ON PERFUME 80 PERCENT, UP FROM 40 PERCENT;

DUTY ON FOOTWEAR INCREASED FROM 30 TO 65 PERCENT;

CERAMIC PRODUCTS ARE CHARGED 80 PERCENT DUTY, UP FROM 40 PERCENT;

AIR CONDITIONING UNITS PREVIOUSLY AT ZERO NOW INCUR 40 TO 90 PERCENT DUTY AND A SURCHARGE OF Z\$200/UNIT;

DUTY ON PASSENGER MOTOR VEHICLES (BUSES) SEATING 20 OR MORE PERSONS INCREASED FROM 25 TO 50 PERCENT, WHILE ON VEHICLES SEATING 19 OR LESS (MINIBUSES) THE DUTY ROSE FROM 40 TO 80 PERCENT;

DUTY ON TOYS INCREASED FROM 30 TO 70 PERCENT;

DUTY ON PLASTIC OR WOODEN FURNITURE INCREASED TO 80 PERCENT FROM 40 PERCENT.

DUTIES ON WHAT ARE CONSIDERED LUXURY GOODS THAT CAN BE MANUFACTURED LOCALLY HAVE INCREASED ON AVERAGE BY 100 PERCENT. A TARIFF COMMISSION HAS BEEN FORMED TO LOOK AT CASES WHERE LOCAL MANUFACTURERS HAVE BEEN DISADVANTAGED BY THE NEW TARIFF REGIME, THOUGH IT MEETS ONLY MONTHLY AND HAS A LARGE AND GROWING BACKLOG.

EFFECTIVE ON OCTOBER 2, 1998, ALL TARIFFS ON IMPORTED GOODS HAVE ALSO BEEN CHARGED A 15 PERCENT IMPORT UNCLASSIFIED

PAGE 04 HARARE 00081 02 OF 06 091619Z SURCHARGE, REGARDLESS OF CLASSIFICATION. A NARROW EXEMPTION FROM THE TAX EXISTS FOR CAPITAL GOODS, SUCH AS MANUFACTURING EQUIPMENT AND INTERMEDIATE GOODS THAT ARE SUBJECT TO FURTHER PROCESSING AND RE-EXPORT.

PERIODIC INSTANCES OF CORRUPTION AND A LACK OF UNIFORM APPLICATION OF THE LAW BY CUSTOMS OFFICIALS CONTINUE TO CONCERN IMPORTERS AND USERS OF IMPORTED GOODS OR COMPONENTS.

RELEVANT TAX AND DUTY CHANGES INCLUDED IN THE 2001 BUDGET ANNOUNCEMENT INCLUDE:

REDUCTION OF SALES TAX ON COMMERCIAL VEHICLES FROM 25 TO 15 PERCENT;

THE CORPORATE TAX RATE IS REDUCED FROM 35 TO 30 PERCENT PLUS HIV/AIDS LEVY OF THREE PERCENT, AND FROM 35 TO 25 PERCENT FOR MINING COMPANIES;

EFFECTIVE JANUARY 1, 2001, CAPITAL GOODS IMPORTED BY THE MINING SECTOR FOR A FIVE-YEAR EXPLORATION PHASE ARE EXEMPT FROM IMPORT AND SALES TAXES;

A 20 PERCENT AIRCRAFT LEASING EXCISE TAX WAS SCRAPPED, AND IMPORT DUTIES ON AIRCRAFT SPARE PARTS DROP TO ZERO (TO BENEFIT TOURISM);

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INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
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	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00	NSCE-00
	OES-01	OMB-01	OPIC-01	PC-01	ACE-00	SP-00	IRM-00
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DUTY ON IMPORTED BICYCLES DROPPED FROM 40 TO  
20 PERCENT;

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EXCISE DUTY ON SOFT DRINKS REDUCED FROM 25  
TO 15 PERCENT, AND EXCISE DUTY ON IMPORTED BEER  
REDUCED FROM 80 TO 60 PERCENT;  
TO PROMOTE EXPORTS, COMPANIES GAIN  
TRANSFERABLE DUTY-FREE CERTIFICATES BASED ON 10  
PERCENT OF THE U.S. VALUE OF INCREMENTAL EXPORTS  
IN 2001 AND 2002, USING 1999 AS THE BASE YEAR.

#### GOVERNMENT PROCUREMENT

ZIMBABWEAN LAW PROVIDES FOR NON-DISCRIMINATORY  
GOVERNMENT PROCUREMENT PRACTICES, INCLUDING FULL  
TRANSPARENCY IN THE TENDER PROCESS. THE GOVERNMENT OF  
ZIMBABWE'S TENDER BOARD IS REQUIRED TO INVITE BIDS  
FROM BOTH LOCAL AND INTERNATIONAL ENTITIES FOR ANY  
PURCHASE IN EXCESS OF Z\$800,000

(APPROXIMATELY \$14,500). NOTWITHSTANDING THIS POSITIVE  
LEGAL ENVIRONMENT, U.S. FIRMS AND VARIOUS NATIONAL  
GOVERNMENTS, INCLUDING THOSE OF THE UNITED STATES,  
JAPAN, GREAT BRITAIN, FRANCE, BELGIUM AND ITALY, HAVE  
VOICED STRONG COMPLAINTS ABOUT THE LACK OF  
TRANSPARENCY AND FAIRNESS IN GOVERNMENT TENDERS.  
MULTILATERAL INSTITUTIONS HAVE ALSO CRITICIZED THE  
GOVERNMENT TENDERING PROCESS AND CALLED FOR CHANGES.  
ZIMBABWE IS NOT A  
SIGNATORY TO THE WTO AGREEMENT ON GOVERNMENT  
PROCUREMENT.

IN TWO PROMINENT TENDERS, THE CONTRACT AWARDS WERE  
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BASED ON FACTORS OTHER THAN COST, RESULTING IN LOCAL  
SUPPLIERS BEING ACCEPTED OVER FOREIGN SUPPLIERS WITH  
SUBSTANTIALLY LOWER BIDS. DESPITE THE BOARD'S  
REQUIREMENT TO INVITE TENDERS FOR ANY PROJECT IN  
EXCESS OF THE Z\$800,000 THRESHOLD, ZIMBABWE CONTINUES  
TO USE SOLE-SOURCING FOR A NUMBER OF MAJOR CONTRACTS,  
IN PARTICULAR PURCHASES BY THE MINISTRY OF DEFENSE AND  
CONTRACTS WITH THE RESERVE BANK OF ZIMBABWE TO PRINT  
PAPER MONEY AND MINT COINS.

IN AN EFFORT TO ENCOURAGE INDIGENOUS BUSINESSES,  
ZIMBABWE MAINTAINS QUOTAS ON CERTAIN SERVICES AND  
WHICH ARE RESERVED FOR ZIMBABWEAN FIRMS.

#### INTELLECTUAL PROPERTY RIGHTS PROTECTION

SINCE INDEPENDENCE, ZIMBABWE HAS JOINED SEVERAL  
INTERNATIONAL PATENT AND TRADEMARK CONVENTIONS. IT IS  
A MEMBER OF THE WORLD INTELLECTUAL PROPERTY  
ORGANIZATION, AND IS A SIGNATORY TO THE PARIS  
CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY  
(STOCKHOLM TEXT), AND THE BERNE CONVENTION FOR THE  
PROTECTION OF LITERARY AND ARTISTIC WORKS (ROME TEXT).  
HOWEVER, SOME ENFORCEMENT PROBLEMS EXIST. AUDIO AND  
VIDEOCASSETTE PIRACY IS THE MOST WIDESPREAD  
INTELLECTUAL PROPERTY ISSUE IN ZIMBABWE, THOUGH THE  
VOLUMES INVOLVED ARE RELATIVELY SMALL. WHILE SOFTWARE  
BOOTLEGGING UNDOUBTEDLY OCCURS BY USERS, PIRATED  
SOFTWARE IS RARELY SOLD COMMERCIALY.

#### SERVICES BARRIERS

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ALTHOUGH THE BAN ON LOCAL FOREIGN CURRENCY-DENOMINATED  
BANK ACCOUNTS (KNOWN AS FCAS) WAS LIFTED IN OCTOBER  
1999 AT THE IMF'S URGING, ZIMBABWE'S SEVERE HARD  
CURRENCY SHORTAGE HAS CAUSED A VERY SUBSTANTIAL  
BUILDUP IN PUBLIC AND PRIVATE EXTERNAL ARREARS,  
ESTIMATED AT OVER US\$1 BILLION AT YEAR-END 2001. THE  
LACK OF HARD CURRENCY HAS NEGATIVELY IMPACTED ALL  
SECTORS OF THE ECONOMY, WITH PARTICULAR EMPHASIS ON  
THE MANUFACTURING AND MINING SECTORS, THAT REQUIRE  
SUBSTANTIAL AMOUNTS OF IMPORTED COMPONENTS OR  
SUPPLIES. THE PROSPECT OF CONTINUED FOREIGN CURRENCY

SHORTAGES AND A PEGGED EXCHANGE RATE RAISES THE POSSIBILITY THAT ADDITIONAL CONTROLS OR RESTRICTIONS MAY BE PLACED ON SUCH ACCOUNTS, MAKING OPERATIONS TOUGHER FOR INDUSTRY AND ALL IMPORTERS AND EXPORTERS.

WORLD-CLASS PROFESSIONAL SERVICES (CONSULTANCY, ACCOUNTING, LEGAL AND OTHERS) ARE GENERALLY AVAILABLE WITHIN THE COUNTRY. HOWEVER, THE RECENT ECONOMIC DETERIORATION AND CONSEQUENT SLIDES IN DISPOSABLE INCOME AND STANDARDS OF LIVING, AND POLITICAL VIOLENCE AND INVASIONS OF PRIVATE PROPERTY HAVE CAUSED A MARKED INCREASE IN THE RATES OF EMIGRATION OF PROFESSIONALS AND THE TECHNICALLY QUALIFIED. THIS HAS CAUSED

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	TEDE-00	INR-00	IO-00	ITC-01	LAB-01	L-00	VCE-00
	AC-01	NSAE-00	NSCE-00	OES-01	OMB-01	OPIC-01	PC-01
	ACE-00	SP-00	IRM-00	SSO-00	SS-00	STR-00	TEST-00
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RECRUITMENT PROBLEMS FOR EMPLOYERS.  
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IN 1999, SOME SOFTWARE COMPANIES ENCOUNTERED DIFFICULTIES WITH THE IMPORTATION OF PROGRAMS CONTAINING EXTENSIVE GRAPHICS, AS ZIMBABWE CUSTOMS DEEMED THEM TO BE ENTERTAINMENT PROGRAMS (SUBJECT TO AN 80 PERCENT DUTY) AND NOT COMPUTER SOFTWARE (SUBJECT TO A 15 PERCENT DUTY). THERE ARE CURRENTLY NO TRADE RESTRICTIONS ON ELECTRONIC COMMERCE

.

INVESTMENT BARRIERS

THE GOVERNMENT HAS LIFTED SOME OF ITS MOST ONEROUS RESTRICTIONS ON FOREIGN INVESTMENT. IT PERMITS PRE-INDEPENDENCE INVESTORS TO REMIT 100 PERCENT OF DECLARED DIVIDENDS AND NO LONGER IMPOSES RESTRICTIONS ON LOCAL BORROWING. IN SEPTEMBER 1995, THE RESERVE BANK OF ZIMBABWE (RBZ) BEGAN LIBERALIZING BLOCKED ACCOUNTS, ALLOWING REPATRIATION OF CERTAIN BLOCKED FUNDS (PROFITS AND DIVIDENDS ACCRUED ON PRE-1993 INVESTMENTS, CORPORATE FUNDS IN GOVERNMENT OF ZIMBABWE EXTERNAL BONDS, AND ACCOUNTS WITH AUTHORIZED DEALERS). DUE TO ZIMBABWE'S ONGOING FINANCIAL CRISIS, THERE IS SERIOUS CONCERN THAT THE GOVERNMENT MAY RESORT TO A RE-IMPOSITION OF FOREIGN EXCHANGE RESTRICTIONS OR A FORMAL, FIXED RATE FOREIGN EXCHANGE REGIME, AND CURRENTLY 40 PERCENT OF ALL EXPORT PROCEEDS MUST BE GIVEN OVER TO THE CENTRAL BANK FOR EXCHANGE AT THE OFFICIAL RATE.

IN ADDITION, IN LATE 2001 THE GOVERNMENT IMPOSED PRICE  
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CONTROLS ON A WIDE RANGE OF STAPLES AND COMMODITIES. (THE LIST INCLUDES: MAIZE MEAL; SUGAR; COOKING OIL; FLOUR; BEEF AND POULTRY; SOAP; FERTILIZER; CEMENT; CROP SEEDS; AND PARAFFIN.) THE CONTROLS, WHICH CAUSE PRODUCTION LOSSES FOR MOST MANUFACTURERS, HAVE RESULTED IN SHORTAGES OF THESE STAPLES AND DISINVESTMENT IN SOME SECTORS, SUCH AS POULTRY AND BEEF PRODUCTION.

ZIMBABWE IS A SIGNATORY TO THE FOLLOWING INVESTOR/INVESTMENT PROTECTION TREATIES: THE MULTILATERAL INVESTMENT GRANT AGENCY (MIGA), THE INTERNATIONAL CONVENTION FOR THE SETTLEMENT OF INVESTMENT DISPUTES; NEW YORK CONVENTION ON THE ENFORCEMENT OF FOREIGN ARBITRAL AWARDS; AND THE UNITED NATIONS CONVENTION ON INTERNATIONAL TRADE LAW.

ROADBLOCKS TO FOREIGN INVESTMENT ARE PERVASIVE FOREIGN-OWNED BUSINESSES HAVE CITED INSTANCES OF CORRUPTION AS A SERIOUS AND TROUBLESOME PROBLEM, PARTICULARLY DURING STARTUP, EXPANSION OR TRANSFER OF ASSETS. BOTH NEW AND EXISTING INVESTORS HAVE ENCOUNTERED DELAYS AND A LACK OF TRANSPARENCY IN OBTAINING INVESTMENT TRANSFER APPROVAL FROM THE RESERVE BANK OF ZIMBABWE. THERE HAVE ALSO BEEN PROTRACTED DELAYS AND A LACK OF TRANSPARENCY ON THE PART OF GOVERNMENT IN APPROVING WORK PERMITS FOR EXPATRIATE REPRESENTATIVES OF OVERSEAS FIRMS. APPLICANTS HAVE DESCRIBED THE PROCESS AS DIFFICULT, TIME-CONSUMING, AND AT TIMES, ARBITRARY. IN ONE EXAMPLE, A SENIOR EXECUTIVE OF A MAJOR U.S. UNCLASSIFIED

PAGE 04 HARARE 00081 04 OF 06 091619Z CORPORATION WAS DENIED RENEWAL OF HIS WORK PERMIT ON THE BASIS OF HIS AGE (63). THE U.S. HAS HAD SOME SUCCESS IN OBTAINING FAVORABLE REVIEWS IN SUCH CASES.

#### INVESTMENT PROMOTION

NEW FOREIGN INVESTMENT INTO ZIMBABWE, EXCLUDING EXPORT PROCESSING ZONE PROJECTS, HAVE TO BE APPROVED BY THE ZIMBABWE INVESTMENT CENTER (ZIC). IN ADDITION, BRANCH OPERATIONS REQUIRE APPROVAL FROM THE MINISTRY OF JUSTICE'S REGISTRAR OF COMPANIES, AND FOREIGN INVESTMENT IN EXISTING COMPANIES MAY REQUIRE RESERVE BANK APPROVAL.

HARSH ECONOMIC CONDITIONS AND UNCERTAINTY HAVE CAUSED A 63 PERCENT SLIDE IN APPROVED INVESTMENT APPLICATIONS IN 1999 OVER THE PRIOR YEAR, FROM Z\$60.3 BILLION TO Z\$22.5 BILLION (ABOUT US\$590 MILLION AT CURRENT RATES). ACTUAL INVESTMENT IN ANY GIVEN YEAR MAY BE CONSIDERABLY LESS THAN WHAT MAY BE INDICATED BY APPROVED INVESTMENT APPLICATIONS.

EXPORT PROCESSING ZONES (EPZ) AND CERTAIN RELATED TAX CONCESSIONS COULD BOOST FOREIGN INVESTMENT, BUT A NUMBER OF FACTORS HAVE LIMITED THEIR SUCCESS. BENEFITS INCLUDE A FIVE-YEAR TAX HOLIDAY, DUTY-FREE IMPORTATION

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INFO	LOG-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00	DODE-00
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	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01
	LAB-01	L-00	VCE-00	AC-01	NSAE-00	NSCE-00	OES-01
	OMB-01	OPIC-01	PC-01	ACE-00	SP-00	IRM-00	SSO-00
	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	FMP-00	EPAE-00
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FM AMEMBASSY HARARE  
TO SECSTATE WASHDC 0679  
INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

UNCLAS SECTION 05 OF 06 HARARE 000081

SIPDIS

STATE PASS USTR FOR LESLIE YANG/G. BLUE  
STATE FOR AF/S, AF/EPS, EB/MTA/STA/M. ENIS

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EFIN](#) [ZI](#)

SUBJECT: ZIMBABWE 2002 NATIONAL TRADE ESTIMATE REPORT SUBMISSION

OF RAW MATERIALS, NO TAX LIABILITY FROM CAPITAL GAINS ARISING FROM THE SALE OF PROPERTY FORMING PART OF THE UNCLASSIFIED

PAGE 02 HARARE 00081 05 OF 06 091620Z INVESTMENT IN DESIGNATED PROCESSING ZONES, AND DUTY-FREE IMPORTATION OF CAPITAL EQUIPMENT FOR USE IN THE EPZ. A TRADE PERFORMANCE MANDATE REQUIRES ELIGIBLE COMPANIES TO EXPORT AT LEAST 80 PERCENT OF OUTPUT. THE EPZ AUTHORITY, OPERATIONAL SINCE EARLY 1996, HAS

APPROVED APPLICATIONS FOR 105 COMPANIES TO OPERATE IN MORE THAN A DOZEN ZONES. JUST OVER HALF OF THESE PROJECTS ARE OPERATIONAL, WITH THE OTHERS SLOWED OR HALTED BY THE ECONOMIC DOWNTURN  
. THE NEW ENTITIES ARE ALSO ENCOUNTERING DIFFICULTIES IN CONNECTING TO TELECOMMUNICATIONS SERVICES, WATER AND ELECTRIC UTILITIES. PROBLEMS CONTINUE TO ARISE WITH THE DEPARTMENT OF CUSTOMS, WHICH FREQUENTLY CHARGES DESIGNATED COMPANIES DUTIES ON EXEMPTED INPUTS AND EQUIPMENT.

FOR COMPANIES LISTED ON THE ZIMBABWE STOCK EXCHANGE (ZSE), UP TO 40 PERCENT OF OUTSTANDING SHARES MAY BE FOREIGN-HELD, WITH A 10 PERCENT CAP FOR ANY SINGLE FOREIGN HOLDER. SEVERAL COMMERCIAL AND MERCHANT BANKS AND BROKERAGE FIRMS OFFER COMPREHENSIVE ADVISORY SERVICES ON THE DOMESTIC AND REGIONAL MARKETS. WORK AND PERMANENT RESIDENCE PERMITS ARE AVAILABLE TO INVESTORS WHO BRING IN SPECIFIED AMOUNTS OF FOREIGN CAPITAL. WITHHOLDING TAXES APPLY TO ALL WAGES, SALARIES, INTEREST, DIVIDENDS AND CAPITAL GAINS ACCRUING IN ZIMBABWE.

#### OTHER BARRIERS

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LAND REFORM

ZIMBABWE IS CURRENTLY ENGAGED IN AN AGGRESSIVE, CHAOTIC LAND OCCUPATION AND RESETTLEMENT PROGRAM THAT HAS ECONOMIC CONSEQUENCES THAT HAVE NOT BEEN FULLY REALIZED. FOR EXAMPLE, FOR THE FIRST TIME SINCE THE 1991/1992 DROUGHT THE COUNTRY IS PRESENTLY EXPERIENCING SHORTAGES OF THE STAPLE MAIZE, AT LEAST PARTLY DUE TO THE LAND INVASIONS, AND THE PROSPECTS FOR THE NEXT GROWING SEASON ARE DIRE FOR BOTH FOOD CROPS AND EXPORT CROPS. WHILE THE REDISTRIBUTION OF LARGE COMMERCIAL FARMS TO THE LANDLESS AND SMALL-SCALE INDIGENOUS FARMERS HAS LONG BEEN A STATED GOAL OF THE ZIMBABWEAN GOVERNMENT, NO SUSTAINED IMPLEMENTATION HAD OCCURRED UNTIL THE GOVERNMENT'S LOSS OF A CONSTITUTIONAL REFERENDUM VOTE AND THE SUBSEQUENT CAMPAIGN FOR THE PARLIAMENTARY ELECTIONS IN THE FIRST HALF OF 2000. BECAUSE THE GOVERNMENT HAS PROCEEDED WITH ITS "FAST TRACK" LAND RESETTLEMENT PROGRAM WITHOUT BENEFIT OF A TRANSPARENT, COHERENT PLAN, AND IN DEFIANCE OF ORDERS BY THE SUPREME COURT INSTRUCTING COMPLIANCE WITH THE LAW, INTERNATIONAL AND DONOR ASSISTANCE FOR LAND REFORM IS NOW SUSPENDED FOR THE MOST PART. (PAYMENT ARREARS BY ZIMBABWE HAVE ALSO CAUSED SUSPENSION OF SOME DONOR PROGRAMS.) RECENT COURT DECISIONS BY AN EXPANDED AND RECONSTITUTED SUPREME COURT "LEGALIZING" THE LAND RESETTLEMENT PROCESS HAS NOT CONVINCED THE DONOR COMMUNITY THAT THEY SHOULD RE-ENGAGE ON THIS ACTIVITY. A COOPERATIVE PATH FORWARD AT THE TIME OF THIS REPORT IS DIFFICULT TO DISCERN, AS IS THE OUTCOME AND LONG-TERM IMPACTS OF

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THE CURRENT, POLITICALLY-DRIVEN PROGRAM.

#### PRIVATIZATION

THE DONOR COMMUNITY AND THE MULTILATERAL FINANCIAL INSTITUTIONS AGREE THAT ZIMBABWE'S RECORD ON PRIVATIZATION HAS BEEN POOR. SUSTAINED PRESSURE BY THESE OUTSIDE GROUPS HAS BROUGHT FEW RESULTS BECAUSE THE GOVERNMENT DID NOT HAVE A WELL-DEFINED PRIVATIZATION PROGRAM TO GOVERN THE PROCESS. THE IMF HAS MADE PROGRESS ON PRIVATIZATION A CONDITION FOR THE RENEWAL OF ITS RELATIONSHIP, BUT CONTINUED DELAYS ARE EXPECTED.

AS PART OF THE ONGOING COMMERCIALIZATION/PRIVATIZATION PROGRAM, ALL PARASTATALS MUST NOW PAY TAXES AND DECLARE DIVIDENDS. RECENT GOVERNMENT BUDGETS HAVE ALL CONTAINED A PROVISION FOR THE RAISING OF SUBSTANTIAL FUNDS FROM GOVERNMENT ASSET SALES THROUGH PRIVATIZATION, BUT RESULTS HAVE CONSISTENTLY FALLEN FAR SHORT AND GIVEN CURRENT ECONOMIC CONDITIONS AND THE FINANCIAL STATE OF MOST OF THE PARASTATALS IT IS DIFFICULT TO SEE HOW THIS RECORD WILL BE TURNED AROUND.

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ACTION AF-00

INFO LOG-00 AID-00 CEA-01 CIAE-00 COME-00 CTME-00 INL-00

DODE-00	ITCE-00	DOTE-00	SRPP-00	EB-00	EXME-00	E-00
FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00	NSCE-00
OES-01	OMB-01	OPIC-01	CAEX-01	PC-01	ACE-00	SP-00
SSO-00	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	FMP-00
EPAE-00	DRL-02	G-00	NFAT-00	SAS-00	/012W	

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 FM AMEMBASSY HARARE  
 TO SECSTATE WASHDC 0680  
 INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

UNCLAS SECTION 06 OF 06 HARARE 000081

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SUBJECT: ZIMBABWE 2002 NATIONAL TRADE ESTIMATE REPORT  
 SUBMISSION

A CENTRAL PROBLEM IN THE PRIVATIZATION EFFORT HAS BEEN  
 THE ABSENCE OF A SINGLE ORGANIZATIONAL ENTITY WITH  
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 OVERALL RESPONSIBILITY FOR THE DESIGN AND  
 IMPLEMENTATION OF THE PROGRAM, AND THE NEED TO BALANCE  
 THIS WITH PARTICIPATION OF LOCAL INVESTORS LACKING  
 CAPITAL. IN 2001 THE GOVERNMENT APPROVED AND SET UP AN  
 INDEPENDENT UNIT, BASED IN THE PRESIDENT'S OFFICE,  
 THAT IS CHARGED WITH IDENTIFYING PUBLIC ENTERPRISES TO  
 BE PRIVATIZED AND EXPEDITING THE SALES PROCESS.  
 PROGRESS SINCE SETUP HAS, HOWEVER, BEEN DISAPPOINTING.  
 ZIMBABWE HAS PRIVATIZED SEVERAL OF ITS AGRICULTURAL  
 MARKETING BOARDS. THE COTTON COMPANY OF ZIMBABWE  
 (COTTCO), FORMERLY THE COTTON MARKET  
 ING BOARD) AND  
 DAIRYBOARD OF ZIMBABWE (FORMERLY THE DAIRY MARKETING  
 BOARD) WERE PRIVATIZED IN 1997 THROUGH SHARE FLOATS ON  
 THE HARARE STOCK EXCHANGE. THE ZIMBABWE GOVERNMENT  
 RETAINED A 25 PERCENT INTEREST IN COTTCO AND A 40  
 PERCENT INTEREST IN DAIRYBOARD. IN THE LAST QUARTER OF  
 1999, THE RAINBOW TOURISM GROUP, A PARASTATAL INVOLVED  
 IN TOURISM WAS PRIVATIZED WITH THE GOVERNMENT  
 RETAINING A 30 PERCENT EQUITY SHARE. THE GROUP OWNS  
 SEVERAL HOTELS, THE HARARE INTERNATIONAL CONFERENCE  
 CENTER, AND A TRANSPORTATION COMPANY.

A STATED GOAL OF PRIVATIZATION IN ZIMBABWE HAS BEEN TO  
 INCREASE BLACK OWNERSHIP OF THE NATION'S COMMERCIAL  
 ASSETS. THE NATIONAL INVESTMENT TRUST (NIT) WAS SET UP  
 TO FACILITATE THE PARTICIPATION OF THE ECONOMICALLY  
 DISADVANTAGED INDIGENOUS POPULATION IN THE  
 PRIVATIZATION PROCESS, THOUGH FUNDS BUDGETED FOR THIS  
 PURPOSE HAVE NEVER BEEN ADEQUATE. AS AN AD HOC  
 SOLUTION, THE GOVERNMENT FORCED POSTAL WORKERS AND THE  
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 NATIONAL SOCIAL SECURITY FUND TO BUY AND HOLD SHARES  
 ON ITS BEHALF. ON SEVERAL OCCASIONS, CRITICS HAVE  
 ASSERTED THAT THE IMPLEMENTATION OF THE GOVERNMENT'S  
 PRIVATIZATION/INDIGENIZATION POLICY HAS BEEN SLOW,  
 UNEVEN, AND TENDS TO FAVOR GOVERNMENT FRIENDS AND  
 RULING PARTY ALLIES AT THE EXPENSE OF INDEPENDENT  
 BLACK ENTREPRENEURS. U.S. FIRMS ALSO HAVE COMPLAINED  
 ABOUT OFFICIAL ATTEMPTS TO DICTATE THEIR CHOICE OF  
 LOCAL PARTNERS (AS REQUIRED IN MANY RESERVED SECTORS)  
 UNDER THE GUISE OF THE GOVERNMENT'S INDIGENIZATION  
 POLICY.

END TEXT OF NTE 2002 CHAPTER.

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